

Message Text

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ACTION ORM-03

INFO OCT-01 NEA-11 ISO-00 SR-02 IO-14 L-03 OMB-01 TRSE-00

INR-10 CIAE-00 NSAE-00 AID-20 AF-10 ARA-16 EA-11

EUR-25 ABF-01 H-03 /131 W

----- 064677

R 231628Z JAN 74

FM AMEMBASSY BEIRUT

TO SECSTATE WASHDC 6165

USMISSION USUN

INFO AMEMBASSY AMMAN

AMCONSUL JERUSALEM

AMEMBASSY TEL AVIV

USINT CAIRO BY POUCH

USINT DAMASCUS BY POUCH

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E.O. 11652: N/A DECON 1/23/75

TAGS: EAID, SREF, UNRWA, XF

SUBJECT: UNRWA FINANCES

SUMMARY: UNRWA OFFICIALS REPORT THAT AGENCY'S FINANCIAL PROSPECTS FOR 1974 HAVE WORSENEDED MUCH FURTHER THAN EXPECTED. THEY PREDICT THAT IF SUBSTANTIAL RELIEF NOT FORTHCOMING IN NEXT TWO OR THREE MONTHS, UNRWA WILL BE FORCED PROCEED WITH MAJOR CUT-BACK IN REFUGEE SERVICES WHICH COULD HAVE HIGHLY ADVERSE REPERCUSSIONS AMONG BOTH REFUGEES AND HOST GOVTS. END SUMMARY.

1. EMBOFF REVIEWED CURRENT STATE OF UNRWA FINANCES JAN. 22 WITH COMGEN RENNIE, DEPUTY COMGEN KONTOS AND COMPTROLLER CALLOW. COMGEN NOTED THAT ALTHOUGH HE HAD INDICATED AT UNRWA PLEDGING CONFERENCE NOV 30 IN NEW YORK THAT AGENCY'S CY 1974 BUDGET DEFICIT WOULD TOTAL DOLS 7 MILLION (REFLECTING INCREASED CONTRIBUTIONS BY JAPANESE, NORWEGIANS, SWEDES AND OTHERS), HE HAS BEEN INCREASINGLY DISMAYED SINCE HIS RETURN TO BEIRUT THREE
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WEEKS AGO TO WATCH THAT FIGURE EXPAND TO APPROXIMATELY DOLS

12.5 MILLION AS RESULT OF CONTINUING RELENTLESS SPIRAL IN PROJECTED AGENCY OPERATING COSTS--A SPIRAL GENERATED IN ALL AREA OF UNRWA OPERATIONS BY NECESSARY INCREASES IN LOCAL STAFF SALARIES DUE TO EVER-RISING COST OF LIVING (AS MUCH AS 25 PER CENT IN EAST JORDAN, WEST BANK AND GAZA), BY SKY-ROCKETING PRICES OF ESSENTIAL GOODS AND SERVICES PURCHASED BY UNRWA LOCALLY, AND BY NEWS THAT WEST GERMANY INTENDS CUT ITS CONTRIBUTION TO AGENCY BY DOLS 1.5 MILLION IN 1974. COMGEN OBSERVED THAT RECENT US CONGRESSIONAL SUPPLEMENTAL APPROPRIATION OF DOLS 2 MILLION FOR UNRWA EDUCATION WOULD REDUCE LATEST DEFICIT FIGURE SOMEWHAT. ON OTHER HAND, HE WAS SORRY TO SAY THAT RENEWED STRENGTH OF US DOLLAR IN WORLD MONEY MARKETS HAS NOT YET BEEN FELT IN ME AND THEREFORE HAS HAD LITTLE IMPACT ON IMPROVING AGENCY'S FINANCIAL POSITION. (AT BEGINNING OF 1974, UNRWA HAD LESS THAN DOLS 2 MILLION IN WORKING CAPITAL ON HAND.) IN ESSENCE, SAID COMGEN, DESPITE WELCOME RECENT INCREASES IN UNRWA'S INCOME FROM TRADITIONAL CONTRIBUTOR-GOVTS, AGENCY'S FINANCIAL PROSPECTS FOR CY 1974 ARE STILL AS BAD AS THEY WERE ESTIMATED TO BE SIX MONTHS AGO. WHILE HE AND OTHER SENIOR UNRWA OFFICIALS ARE STILL SEARCHING FOR MEANS TO COPE WITH PROJECTED DEFICIT (COMGEN INTENDS TO MAKE ANOTHER APPROACH TO WEALTHY ARAB GOVTS IN NEAR FUTURE), THEY SEE LITTLE HOPE THAT THEIR EFFORTS WILL ENABLE AGENCY AVOID UNPRECEDENTEDLY ACUTE FINANCIAL CRISIS IN MONTHS AHEAD.

2. IN ADDITION TO RATHER FORLORN HOPE OF SUBSTANTIALLY INCREASED INCOME FROM ARAB GOVTS, UNRWA IS NOW PURSUING TWO OTHER LAST-DITCH POSSIBILITIES OF FINANCIAL RELIEF:

(A) POSSIBILITY THAT EEC MAY SOON ALLOCATE SEVERAL MILLION DOLLARS FOR UNRWA FOR UNRWA EDUCATIONAL OPERATING EXPENSES DURING FINAL 18 MONTHS OF AGENCY'S CURRENT MANDATE (DUE TO EXPIRE JUNE 30, 1975). THIS WOULD EASE FINANCIAL BURDEN CONSIDERABLY, BUT NOT RPT NOT TO EXTENT THAT UNRWA COULD SURVIVE 1974 WITHOUT IMPOSING CUTBACKS ON CERTAIN REFUGEE SERVICES, INCLUDING SYSTEM OF PREPARATORY EDUCATION. SIR JOHN HOPES TO HAVE BETTER IDEA OF EEC'S WILLINGNESS TO PROVIDE THIS ASSISTANCE IN NEXT THREE WEEKS.

(B) FAINT CHANCE THAT SYMPATHETIC US CONGRESSMEN AND SENATORS WILL SECURE SUPPLEMENTAL, ONE-TIME SPECIAL APPROPRIATION LIMITED OFFICIAL USE

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OF UP TO DOLS 29 MILLION FOR UNRWA IN COMING MONTHS. UNRWA OFFICIALS HAVE BEEN IN TOUCH WITH SENATORS INOUE AND ABOUREZK, AMONG OTHERS, ON THIS SUBJECT, AND DEPUTY COMGEN KONTOS WILL BE PRESENT IN WASHINGTON AND NEW YORK FOR TWO WEEKS IN LATE JANUARY-EARLY FEBRUARY TO DO WHAT HE CAN TO IMPROVE UNRWA'S CHANCES WHEN CONGRESS RECONVENES. (FOR IO: KONTOS PLANS CALL AT DEPT ON MONDAY, JAN 28, TO DISCUSS THIS MATTER WITH DEPT OFFICERS.) NEITHER HE NOR COMGEN ARE SANGUINE ABOUT

SUCCESS OF THIS EFFORT, BUT THEY BELIEVE IT WORTH TRYING IN VIEW OF AGENCY'S DIRE FINANCIAL PROSPECTS.

3. IF NO FURTHER ASSISTANCE OR FORTHCOMING BY MARCH, BOTH RENNIE AND KONTOS WILL BE OBLIGED INFORM HOST GOVTS THAT THEY HAVE EXHAUSTED ALL POSSIBILITIES OF REDUCING UNRWA DEFICIT AND THAT DRASTIC REDUCTIONS IN UNRWA RATION AND EDUCATION SERVICES WILL HAVE TO BEGIN IN APRIL OR MAY. THEY EXPECT ANOTHER FRUITLESS EMERGENCY ADCOM SESSION WILL BE HELD AS RESULT THIS UNSETTLING ANNOUNCEMENT, AND THAT NEWS OF SUBSEQUENT CUT-BACK WILL PRODUCE CONSIDERABLE AGITATION ON PART OF REFUGEES, ESPECIALLY IN LEBANON.

4. COMMENT: SITUATION DESCRIBED ABOVE REPRESENTS MOST DISTURBING FINANCIAL CRISIS UNRWA HAS EXPERIENCED IN ITS HISTORY. COMGEN AND HIS STAFF ARE PREPARED ACCEPT RESPONSIBILITY FOR MAJOR CUT-BACK IN SERVICES, IF THIS PROVES NECESSARY, HAVING DONE ALL THEY CAN TO AVOID IT. ARAB GOVT (PARTICULARLY KING FEISAL) HAVE BEEN NEGATIVE ABOUT PROVIDING INCREASED FUNDS, AND TRADITIONAL WESTERN SOURCES UNABLE MAKE UP DEFICIT. RENNIE FEARS CUTBACKS COULD CAUSE MAJOR CONTROVERSY AMONG HOST GOVTS AND REFUGEES AT CRITICAL POINT IN ME PEACE-SEEKING EFFORT, BUT HE WOULD PREFER DO HIS BEST TO COPE WITH THIS RATHER THAN PRESIDE OVER COMPLETE BREAK-DOWN IN UNRWA OPERATIONS THAT WOULD ENSUE FROM MAINTAINING FULL SERVICES UNTIL AGENCY GOES TOTALLY BANKRUPT.
HOUGHTON

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: REFUGEE RELIEF, BUDGETS, FINANCIAL CONTRIBUTIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 23 JAN 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974BEIRUT00923
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: BEIRUT
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740123/aaaaauwt.tel
Line Count: 140
Locator: TEXT ON-LINE
Office: ACTION ORM
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: morefirh
Review Comment: n/a
Review Content Flags:
Review Date: 27 JUN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <27 JUN 2002 by rowelle0>; APPROVED <27 JUN 2002 by morefirh>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: UNRWA FINANCES SUMMARY: UNRWA OFFICIALS REPORT THAT AGENCY'S FINANCIAL
TAGS: EAID, SREF, XF, UNRWA
To: STATE USUN NEW YORK
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005